2 Rebound Stocks to Avoid and 1 to Buy in 2021

Description

Rebound stocks are a tough game to play, and one that I do not necessarily enjoy partaking in. This is because of the long-held belief that rebound stocks will pay off one time (during the initial recovery), whereas growth stocks will pay off indefinitely. Because of this, I tend to focus my attention on "the next big thing." However, rebound stocks remain very attractive to many investors. In this article, I will discuss two to avoid and one to buy in 2021.

Warren Buffett dumped his positions

There are so few investment managers that are worth paying attention to. One of the names that every investor should familiarize themselves with is Warren Buffett. One of the most-respected investment managers of all-time, Buffett has grown **Berkshire Hathaway** into a world-renowned holding company. One of his biggest moves of the past year was dropping his airline positions. This is notable because Buffett has been known to be a net buyer throughout his investment career.

With that in mind, I would continue to avoid an investment in **Air Canada** (TSX:AC). Yes, there are many arguments that make the company an attractive buy. One, prior to the pandemic, people have been travelling at higher rates than ever. Second, Air Canada has a stranglehold on the Canadian airline space. However, the company has lost an incredible amount of money since the start of the pandemic. With vaccine distributions being fumbled continuously, it may be a while until we see flights lifting off again.

This was a target by many retail investors over the past two weeks

One of the most popular rebound stocks in Canada, **Cineplex** (TSX:CGX) was a target of many retail investors over the past two weeks. Investors in the United States pumped the price of **AMC**, the company's American peer, in a coordinated attack against short selling hedge funds. Cineplex never saw the same heights as AMC, but it remains a favourite among rebound stocks for the Canadian retail investor.

In its latest earnings report, Cineplex reported an attendance of 66.4 million in 2019. This was the lowest number since 2011, when the company reported 66.1 million attendees. In fact, since 2015, Cineplex has continued to report decreasing numbers year over year. This is not promising, and a big contributor to this trend could be the rise of streaming services. An investment in Cineplex today could be disastrous in a few years time.

This could be an outstanding rebound stock

The Big Five Canadian banks are among the most respected stocks in the country. Of the group, the **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) remains my top pick in the years ahead. The company's stock suffered through 2020 as a result of the pandemic. However, it has already risen about 47% since hitting its lowest point in March. Still trading about 8% from its pre-pandemic levels, the Bank of Nova Scotia still appears on sale today.

The company is an excellent dividend stock, offering a yield of 5.24% as of this writing. More important, the Bank of Nova Scotia has managed to raise its dividend for the past decade and maintains a payout ratio under 70%. The company is still well positioned in South America to reap the rewards of a quickly expanding middle class. This is a no-brainer.

Foolish takeaway

Rebound stocks are a tricky game to play. Many retail investors insist on watching Air Canada and Cineplex as top rebound plays. However, the real money will be made with the Bank of Nova Scotia.

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